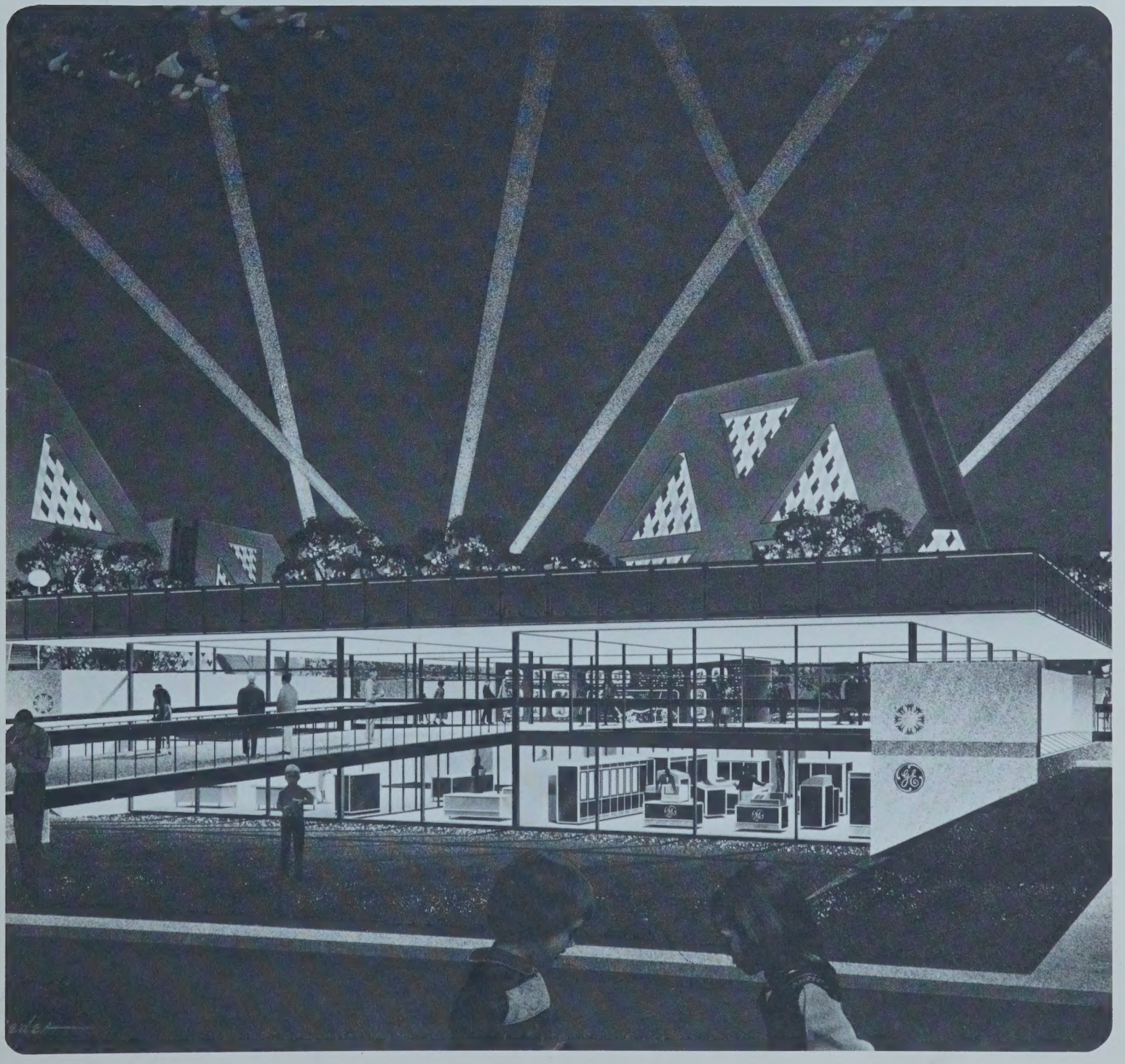
CANADIAN GENERAL ELECTRIC

74th Annual Report - 1966



COVER: CGE AT EXPO 67 — The Operations Control Centre. This joint venture of the Company and the Expo authority presents one of the largest and most sophisticated installations of computer and control equipment ever assembled.

Financial Highlights

	1966	1965
Net sales billed	$415 879 054	$365 992 001
Income Taxes (Federal and Provincial)	18 000 000	16 220 000
Net earnings	18 452 978	16 574 510
Dividends declared	8 366 659	8 369 978
Plant expenditures	20 988 278	20 568 847
Depreciation	11 001 259	9 165 610

How the 1966 Revenue Dollar was distributed

Materials	44.8¢	Reinvestment	2.4¢
Employee Compensation (including benefits)	32.1	Depreciation	2.6
Other Costs and Expenses	16.6	*Increase* in Inventories	*—5.7*
Taxes	5.2	Dividends	2.0

The President Comments:

In 1966, for the fifth successive year, Canadian General Electric attained new high sales levels. Sales in domestic and export markets totalled $415,879,054, an increase of 14 per cent over 1965.

Net earnings totalled $18,452,978, an increase of 11 per cent. This represents 4.4 cents on the sales dollar (4.5 cents—1965) and amounted to $2.33 per common share ($2.09—1965).

The increase in sales was spread over the broad range of Company products serving all segments of the expanding Canadian economy. Particular growth was noted in product lines serving the very active construction industry.

This sales volume increase resulted in a higher level of earnings than in previous years. This was accomplished while capital expenditures continued at a record level, totalling $20,988,278 in 1966. Employment rose by over 2,000 to 22,100 at year-end.

Continuing large expenditures are being made on product lines which offer promising growth opportunities. As one example, it has been decided to concentrate heavy steam turbine production, as well as production of nuclear components, at the Scarborough Plant. This requires substantial expenditures on both engineering and equipment facilities at the plant, but this has been undertaken in the belief that a large domestic capability for utility-rated steam turbo generators is necessary for Canada's continuing growth as a major industrial nation.

Historically, the Company has built in Canada the hydraulic power generating equipment required by its customers. Now, with utilities turning increasingly to thermal power sources, facilities are rapidly being put into place so Canada can become one of the world's leading builders of thermal power generating equipment.

In another field of technology, involving computers and associated equipment, the Company is playing a growing role. The Company's participation in the computer business, while involved in serving business needs, is strongly oriented toward industrial process work and utility power control. For this latter purpose, a portion of the Peterborough Plant has been set aside exclusively for production of these computers.

Another indication of the Company's major interest in the computer field will be seen by visitors to Expo 67 in Montreal. A $3,000,000 GE-625 computer provides the major focal point of the World Exhibition's "Operations Control Centre", a joint venture of CGE and the Expo authority.

During 1966, the Company announced its intention to build a $65,000,000 plant for the production of heavy water for the Canadian nuclear energy program. Major public attention was focused on selection of the plant site. A thorough review of all possible locations was made, including an examination of power costs and the availability of fresh water supply in many regions across Canada. The determining factor in the final site selection was the deuterium (heavy water) content of the water available at Port Hawkesbury on Cape Breton Island in Nova Scotia. Planning and design work on the plant proceeded on schedule and site work was started. Production of heavy water will begin in mid-1969.

The Company's entry into the production of heavy water exemplifies its broad policy of participating in the development of those areas of technology which can result in the continuing availability of low-cost power to Canada. This approach is further described in "Building Big For Low-Cost Power" — a special section of this Report, beginning on page 11.

The Directors wish to express their deep regret at the passing last November of Mr. Hugh G. Hilton of Hamilton, Ont. At the time of his death, Mr. Hilton was the senior Director in point of service on the Board, having served as a member for over 17 years. His counsel over these years was of great value and much respected.

In this Centennial Year, Canadian General Electric celebrates its 75th Anniversary. The Company places on record its appreciation for the opportunity to contribute to Canada's growth over the past three-quarters of a century. Led by a wholly Canadian management team, it dedicates itself to contribute in full and growing measure to Canada's second century of growth.

On behalf of the Board of Directors,

J. Herbert Smith

President

Toronto, Ontario, March 10, 1967

CANADIAN GENERAL ELECTRIC COMPANY LIMITED

Head Office – 214 King St. West, Toronto, Ontario

Directors

J. Alexandre Béland . . . . . Louiseville, Que.
Joseph M. Breen . . . . . Montreal, Que.
Paul Desruisseaux, Q.C. . . . . Sherbrooke, Que.
Oscar L. Dunn . . . . . Erie, Pa.
James H. Goss . . . . . New York, N.Y.
William C. Harris . . . . . Toronto, Ont.
*Hugh G. Hilton . . . . . Hamilton, Ont.
Cecil E. Hipp . . . . . Toronto, Ont.
Mackenzie McMurray . . . . . Lachine, Que.
Maxwell C. G. Meighen . . . . . Toronto, Ont.
Halbert B. Miller . . . . . New York, N.Y.
Robert E. Pfenning . . . . . New York, N.Y.
Donald D. Scarff . . . . . Cleveland, Ohio
J. Herbert Smith . . . . . Toronto, Ont.
Alan G. Trites . . . . . Toronto, Ont.

*Deceased November 18, 1966

Officers

President and Chief Executive Officer . . . . . J. Herbert Smith

Vice President—Finance . . . . . Cecil E. Hipp

Vice Presidents . . . . . L. Robert Douglas
Robert N. Fournier
Charles A. Morrison
Ronald M. Robinson
Robert Story
W. Frank Wansbrough

Secretary . . . . . Alan G. Trites

Assistant Secretaries . . . . . Ivan H. Ashbury
Harry Hughes
George P. Thomson

Treasurer . . . . . William R. C. Blundell

Auditors

Peat, Marwick, Mitchell & Co. . . . . Toronto, Ont.

Transfer Agent and Registrar

National Trust Company, Limited . . . . . Toronto, Ont.

Consolidated Statement of Current and Reinvested Earnings

YEAR ENDED DECEMBER 31, 1966
with comparative figures for 1965

	1966	1965
Net sales billed	$415 879 054	$365 992 001
Costs, expenses, and other charges, except those shown separately below	371 902 532	327 743 711
Depreciation of plant and equipment	11 001 259	9 165 610
Directors' remuneration	277 045	262 184
	383 180 836	337 171 505
Earnings from sales	32 698 218	28 820 496
EARNINGS FROM OTHER SOURCES:		
Dividends and interest	1 890 379	2 388 835
Gain from sale of fixed assets and investments	932 534	862 871
Miscellaneous	1 068 493	1 100 784
	3 891 406	4 352 490
Less interest and other financial charges	136 646	378 476
	3 754 760	3 974 014
Total earnings before income taxes	36 452 978	32 794 510
Income taxes	18 000 000	16 220 000
Net earnings	18 452 978	16 574 510
Reinvested earnings at beginning of year	146 869 916	138 665 384
	165 322 894	155 239 894
DIVIDENDS DECLARED:		
Employees' preferred stock	32 437	35 315
Convertible preferred stock	776 901	778 184
Common stock	7 557 321	7 556 479
	8 366 659	8 369 978
Reinvested earnings at end of year	$156 956 235	$146 869 916

See accompanying notes to consolidated financial statements.

Consolidated Balanc

Assets

			1966	1965
CURRENT ASSETS:				
Cash			$5 245 779	$ 2 491 011
Short term marketable securities at lower of amortized cost or market (equal to approximate market) and call loans			14 767 335	24 253 012
Accounts and notes receivable, less allowance for doubtful accounts			86 979 717	70 051 754
Inventories at the lower of cost or net realizable value (note 2)			126 856 029	102 636 550
			233 848 860	199 432 327
Less progress collections on contracts			40 299 773	27 770 656
Total current assets			193 549 087	171 661 671
FIXED ASSETS:	Cost	Accumulated depreciation		
Land	$ 3 687 490	—	3 687 490	3 566 805
Buildings	67 343 964	35 124 310	32 219 654	29 481 590
Equipment	115 042 030	80 571 716	34 470 314	27 805 763
	$186 073 484	115 696 026	70 377 458	60 854 158
OTHER ASSETS:				
Investment in vessels for hire (net)			7 731 831	11 754 088
Government of Canada bonds deposited as guarantees (equal to approximate market)			2 569 850	3 095 838
Investment in non-consolidated subsidiaries (note 1)			2 519 161	1 021 980
5% refundable tax			941 390	—
All other			1 390 658	1 268 748
Total other assets			15 152 890	17 140 654
			$279 079 435	$249 656 483

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

M. C. G. Meighen , Director

J. H. Smith , Director

IMITED AND ITS SUBSIDIARY COMPANIES

heet

DECEMBER 31,
1966
with comparative figures for 1965

Liabilities

		1966	1965
CURRENT LIABILITIES:			
Notes payable to bank		$ 5 000 000	—
Other notes payable		2 690 000	—
Accounts payable		29 642 112	21 019 285
Taxes accrued, including income taxes		16 850 353	15 417 313
Other accrued liabilities		26 192 700	23 375 588
Dividends payable		1 897 085	3 031 581
Total current liabilities		82 272 250	62 843 767
GENERAL RESERVE (note 2)		12 300 000	12 300 000
CAPITAL STOCK (note 3):			
Authorized:			
18,000 special employees' preferred shares, par value $50 each (callable at par)	$ 900 000		
625,000 cumulative convertible $1.25 preferred shares, par value $28 each	17 500 000		
8,178,800 common shares of no par value	—		
Issued and outstanding:			
18,000 special employees' preferred shares		900 000	900 000
Less redeemed (1966—5,826 shares; 1965—3,989 shares)		291 300	199 450
		608 700	700 550
621,117 cumulative convertible $1.25 preferred shares (1965—621,923)		17 391 276	17 413 844
7,557,683 common shares—stated value (1965—7,556,877)		9 550 974	9 528 406
Total capital stock		27 550 950	27 642 800
REINVESTED EARNINGS (note 4)		156 956 235	146 869 916
		$279 079 435	$249 656 483

Statement of Source and Application of Funds

YEAR ENDED DECEMBER 31, 1966

with comparative figures for 1965

		1966		1965
FUNDS PROVIDED:				
From operations:				
Net earnings		$18 452 978		$16 574 510
Add charges not requiring cash expenditure—depreciation of plant and equipment		11 001 259		9 165 610
Funds provided from operations		29 454 237		25 740 120
Decrease in other assets		1 987 764		2 073 928
Miscellaneous		463 719		803 508
Total funds provided		31 905 720		28 617 556
USED AS FOLLOWS:				
Additions to plant and equipment including (in 1965) assets of acquired company:				
Land	$ 123 636		$ 259 692	
Buildings, roadways etc.	4 674 489		5 820 369	
Equipment	16 190 153		14 488 786	
Total additions	20 988 278		20 568 847	
Dividends on preferred and common shares	8 366 659		8 369 978	
Redemption of special employees' preferred shares	91 850	29 446 787	17 800	28 956 625
Increase-*(decrease)* in net working capital		$2 458 933		*($ 339 069)*

Notes to consolidated financial statements

1. These financial statements represent a consolidation of the accounts of the parent company, Canadian General Electric Company Limited, and those of all subsidiary companies except Genelco Finance Limited and GFL Realty Limited.

   The active subsidiary companies which are consolidated are as follows:

   Amalgamated Electric Corporation, Limited
   Cowley Electronic Services (1961) Ltd.
   Dominion Engineering Works, Limited
   Montreal Armature Works Limited
   W. L. Stevens Ltd.

   Genelco Finance Limited and GFL Realty Limited are wholly owned finance companies but are not consolidated as their operations are dissimilar to those of the parent company and other subsidiary companies. The net earnings of these two companies for the year ended December 31, 1966 of $27,177 and reinvested earnings as of that date of $31,916 have been included in the accounts of the parent company.

2. The amount of $6,300,000 previously deducted from inventories as a reserve has been transferred to the general reserve at December 31, 1966 and the 1965 figures have been restated to conform.

3. 806 cumulative convertible $1.25 preferred shares were converted to 806 common shares during 1966.

4. Under the provisions of Section 61 of the Canada Corporations Act amounts of $291,300 at December 31, 1966 and $199,450 at December 31, 1965 of the reinvested earnings were classified as capital surplus arising from the redemption of special employees' preferred shares, pending formal reduction of capital.

5. The company is contingently liable to the extent of $1,500,000 under its guarantee of a bank loan to a customer.

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Canadian General Electric Company Limited and its subsidiary companies as of December 31, 1966 and the consolidated statement of current and reinvested earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of current and reinvested earnings present fairly the financial position of the company and its subsidiary companies at December 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds presents fairly the information shown therein.

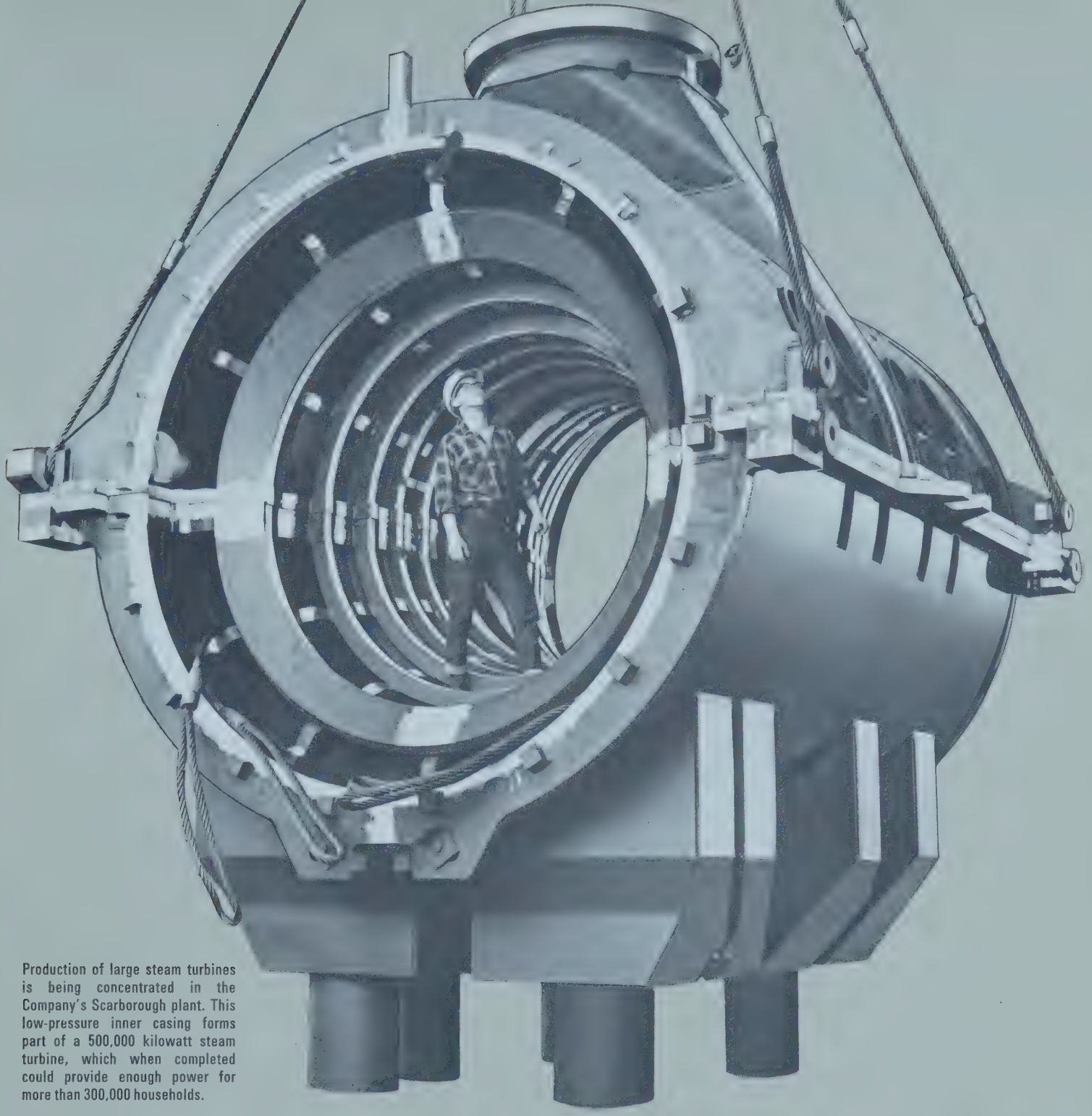
Toronto, Ontario, February 3, 1967

PEAT, MARWICK, MITCHELL & CO. Chartered Accountants

Five year summary

Dollar amounts in thousands except per share earnings	1966	1965	1964	1963	1962
REVENUES:					
Net sales billed	$415 879	$365 992	$324 382	$311 062	$263 302
Non-operating income—net	3 891	4 352	5 152	3 236	1 919
Total revenues	**419 770**	**370 344**	**329 534**	**314 298**	**265 221**
COSTS AND EXPENSES:					
Total employee compensation (including Company costs of pensions, insurance and all other employee benefits)	134 762	115 487	103 783	94 510	87 081
Materials, supplies and all other costs, expenses, and charges—net	257 784	219 108	188 378	174 845	163 001
Depreciation	11 001	9 166	6 918	6 370	6 435
Interest and other financial charges	137	378	245	62	78
Provision for Federal and Provincial income taxes	18 000	16 220	16 973	14 945	9 890
Other taxes	3 853	3 386	2 943	2 795	2 548
Total gross costs and expenses	425 537	363 745	319 240	293 527	269 033
Adjustment for decreases or *increases* in inventories	*24 220*	*9 976*	*6 762*	6 986	*13 956*
Total costs and expenses	**401 317**	**353 769**	**312 478**	**300 513**	**255 077**
Net earnings—total	**18 453**	**16 575**	**17 056**	**13 785**	**10 144**
—per common share	**2.33**	**2.09**	**2.15**	**1.72**	**1.23**
Dividends declared	8 367	8 370	5 539	3 086	3 089
Average number of employees	21 066	18 905	17 139	16 231	15 194
Expenditures for plant and equipment	$20 988	$20 569*	$ 9 867	$ 5 718	$ 15 772*
Capital invested	184 507	174 513	166 326	154 860	144 220
Earnings as a percentage of sales	4.4%	4.5%	5.3%	4.4%	3.9%

*Including plant and equipment acquired with the purchase of other companies.



Production of large steam turbines is being concentrated in the Company's Scarborough plant. This low-pressure inner casing forms part of a 500,000 kilowatt steam turbine, which when completed could provide enough power for more than 300,000 households.

Building Big for Low-Cost Power

The availability of low-cost electric power will be as vital to the development and growth of Canada in the future as it has been in the past.

In the country as a whole, forecasts show that electric power needs will double in the next decade. This means that as much electric equipment will be required in the next ten years as has been built since the beginning of the electrical era.

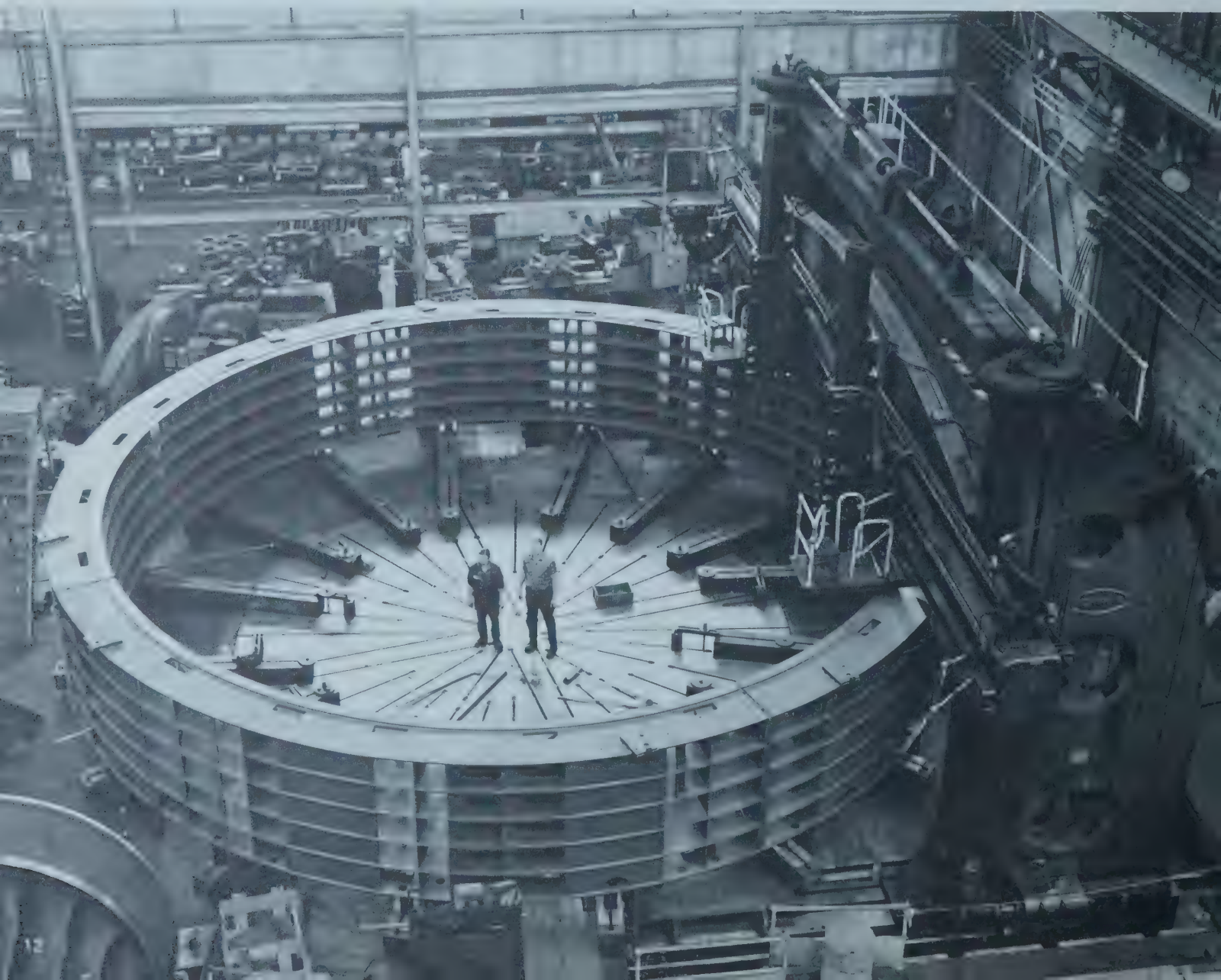
These forecasts are of great significance throughout the economy, since wider use of electricity is fundamental to the multiplication of human effort. Canadian General Electric is prepared to play its part in ensuring that the full range of equipment necessary to generate, transmit and utilize electric energy economically is available to provide the basis for long-term, non-inflationary growth.

Until recent years, the country's need for electricity has largely been satisfied by the power available from hydro sites close to industrial areas and built-up communities. As these water power sources were developed, Canadian electrical manufacturers and utilities became world leaders in the technology required for hydroelectric generation.

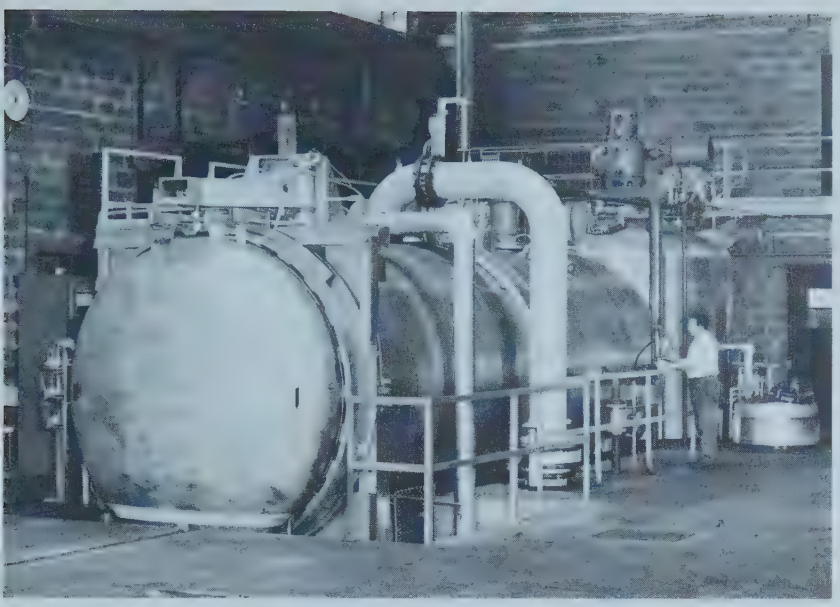
Easily accessible water power sites are now all but exhausted. In the future, Canada's electrical growth will depend on the development of either far-distant hydro sites, utilizing extra-high-voltage transmission techniques, or thermal generating stations burning fossil or nuclear fuels.

As Canada's largest electrical manufacturer, Canadian General Electric accepts the challenge of engineering and building the new types of equipment required for future electrical growth. The Company has invested heavily in new plant and equipment, and in major additions to existing facilities, to attain this objective. Some of the Company's activities toward this end are described in the following special report.

Under production at the Peterborough plant is this stator frame for one of five hydroelectric generators being built for a British Columbia project. Each of these generators will be the largest ever built in Canada in terms of electrical rating.



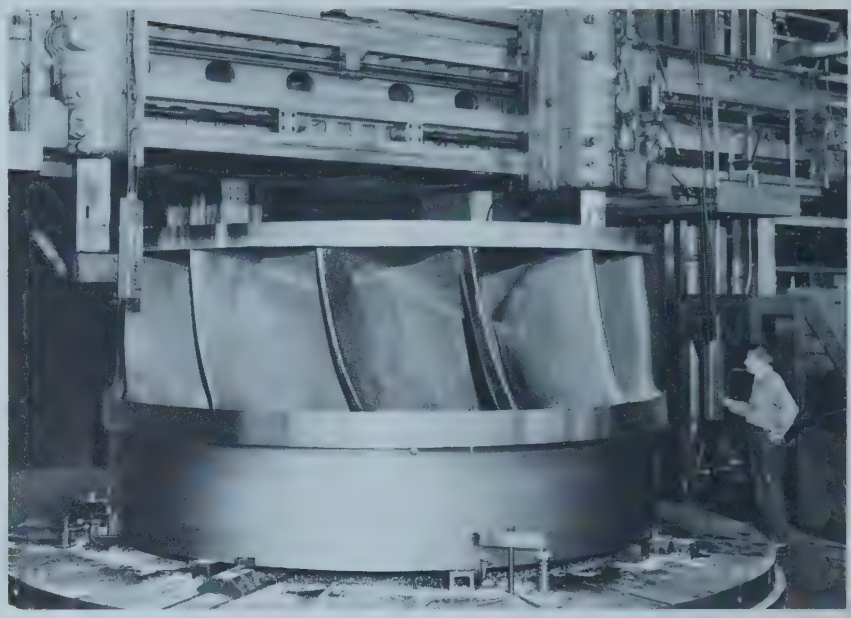
Hydroelectric Generators



This vacuum forming equipment forms part of a new 33,000 square foot Company facility for producing coils for hydroelectric generators, located in Lachine, Quebec. To ensure cleanliness, the manufacturing area of the new plant is pressurized, and incoming air is filtered.

A massive shaft for a hydroelectric generator is machined to fine tolerances at the Peterborough plant. Design innovations over the years have resulted in a sharp drop in total weight of such generators per unit of output. Over the past decade, despite rising cost pressures, prices of these units have more than held their own.

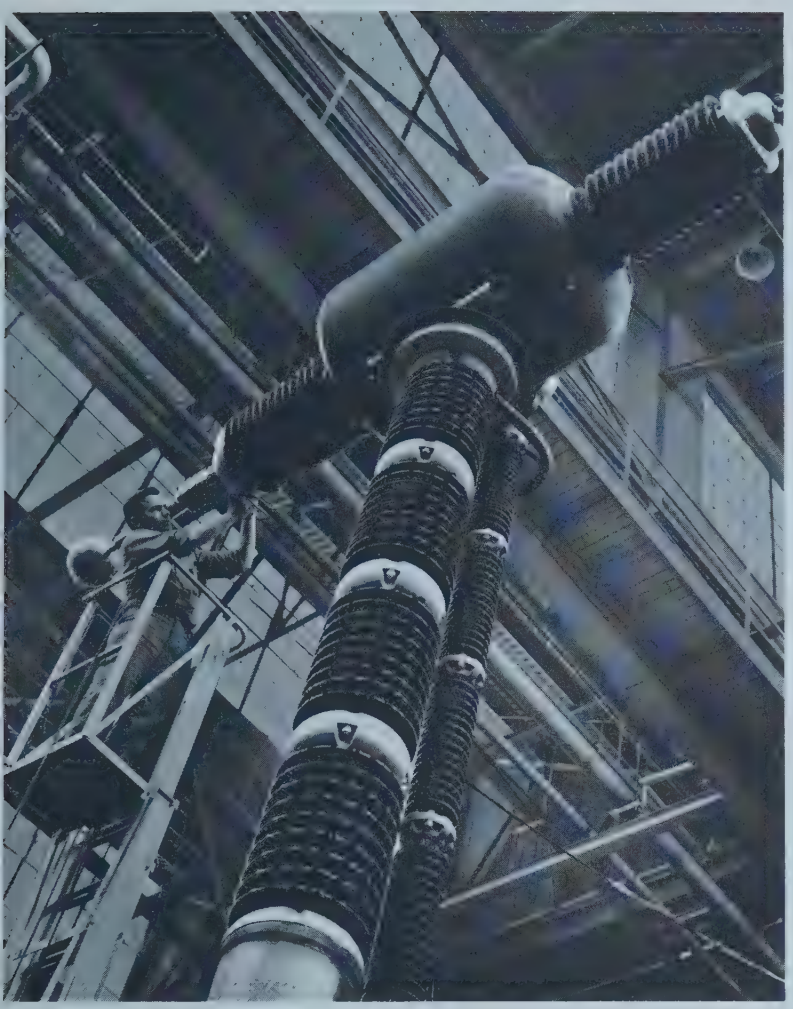
Hydraulic Turbines



A hydraulic turbine runner is machined at Dominion Engineering Works. Four types of hydraulic turbines are produced at the plant. Over 21 million horsepower of generating capacity is represented by the turbines built at DEW over the past 47 years.

A section of a large stay ring for a hydraulic turbine is being milled on the $2½ million milling, boring and drilling machine recently installed at Dominion Engineering Works, Lachine. This machine can handle pieces up to 20 feet high and 59 feet long, weighing as much as 250 tons. Because of its versatility in performing a number of operations, this machine can improve costs by reducing the inplant movement of large components.

Extra-High-Voltage



Over the past decade, the Company pioneered in the development of Canada's first air blast circuit breakers of modular design. Interrupter modules, such as the one shown under test here at the Peterborough plant, may be added in series to provide the higher interrupting capacities required by modern high voltage transmission systems.

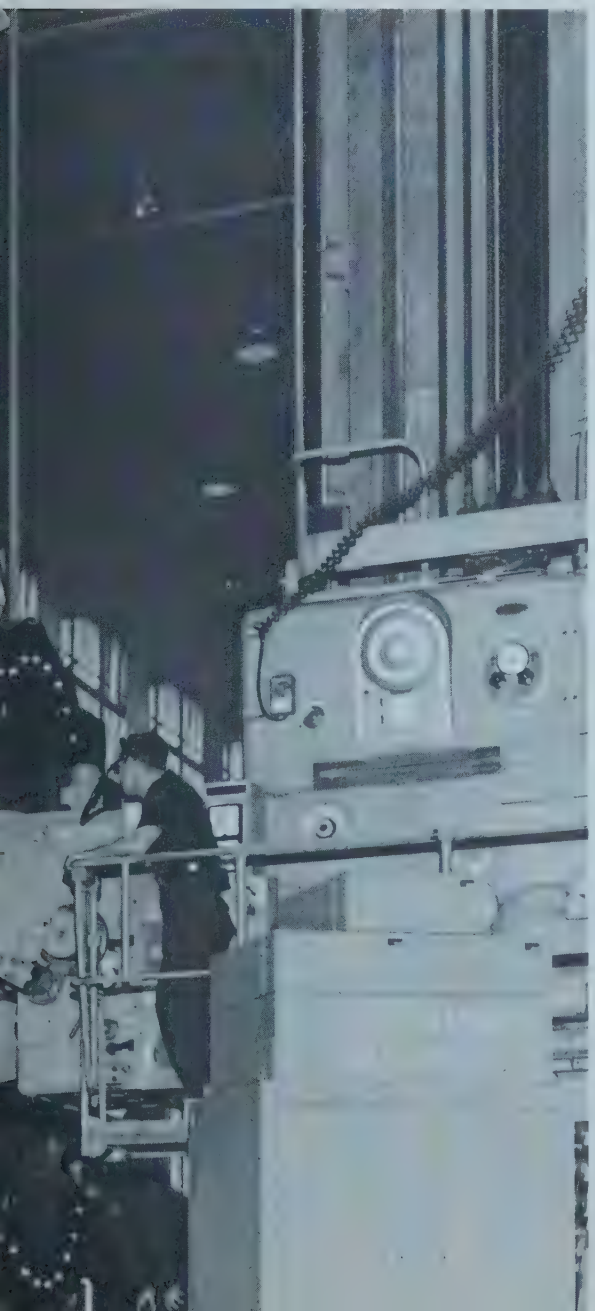
At the Guelph power transformer plant, tests are carried out on a transformer for the world's highest voltage commercial power line. The plant's extra-high-voltage test centre cost $1 million.

Steam Turbines

This large casting is half of the outer casing for a 150,000 kilowatt steam turbine being produced at the Company's Scarborough plant. The Company is building three such units for utility customers in western Canada.

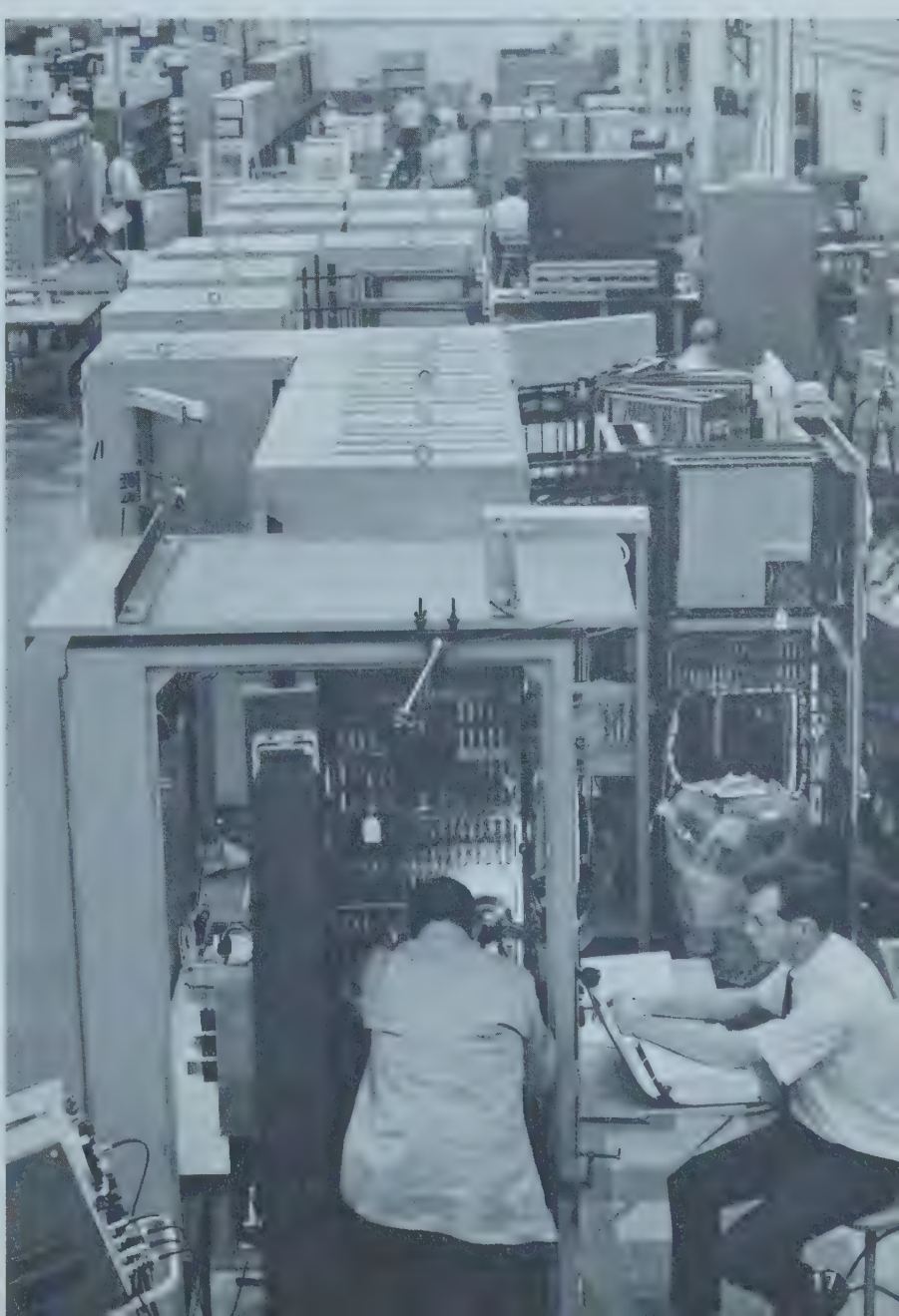
Some idea is given here of the capacity of the largest milling, boring and drilling machine at Dominion Engineering Works. In this operation, the machine is handling with ease the boring of seats on a massive reheat section cylinder for a steam turbine.

Conductor bars are shown being installed in the stator for a steam turbine generator being built at the Peterborough plant. These bars carry the electric power produced by the generator. A recent large investment in new facilities has resulted in improved insulation features in these bars.



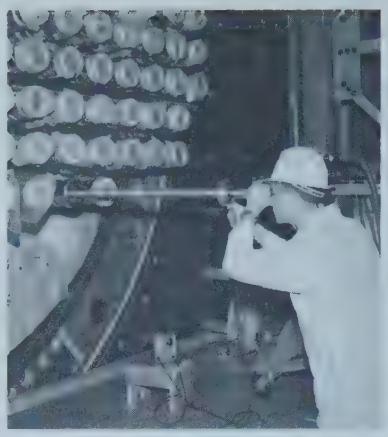
Process Control

Process computers are finding increasing application in the control rooms of thermal-electric power stations. By utilizing sensing and measuring devices, such a computer enables the station's steam turbine to be brought up to speed more quickly and safely. The computers are built in this atmosphere-controlled facility in the Peterborough plant.



Atomic Power

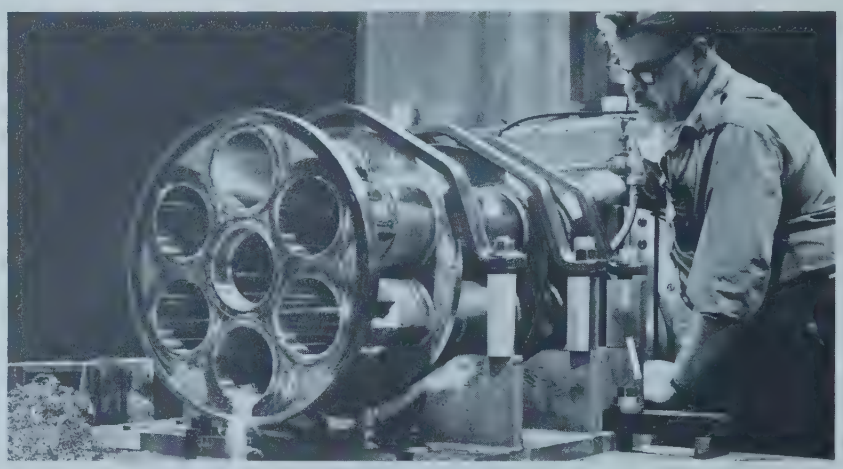
This CGE-designed fuel transfer flask is now being used for fuelling operations in the WR-1 engineering test reactor at Whiteshell, Manitoba. As designer and prime contractor to Atomic Energy of Canada Limited (AECL), CGE designed and supplied the nuclear equipment for the station. This engineering test reactor is being used to test new fuels and coolants for advanced reactor concepts.



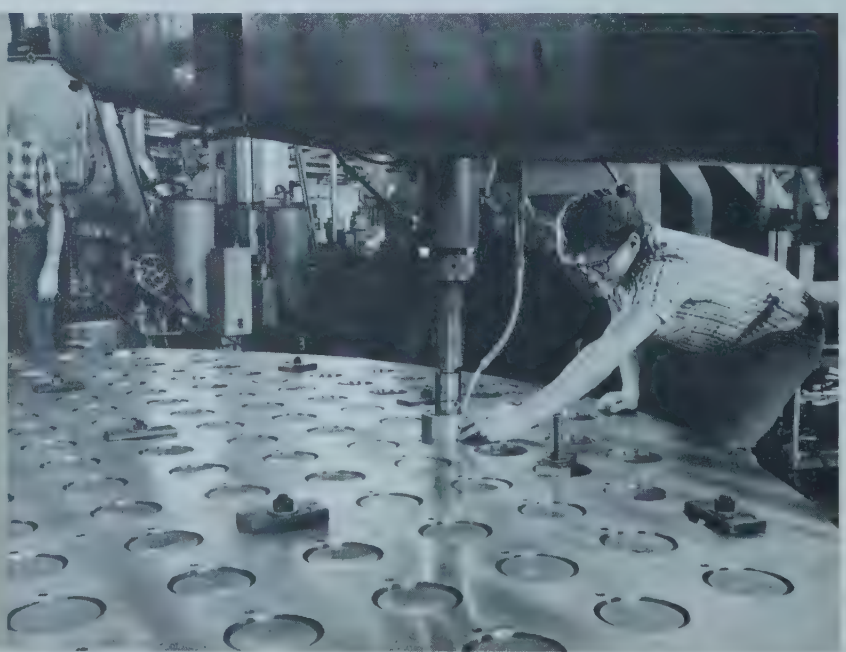
Precise workmanship was called for in carrying out the installation of 306 fuel channel assemblies for the 200,000 kilowatt Douglas Point generating station.

A final grinding operation is being carried out at the Peterborough plant on one of over 4,000 fuel bundles supplied by CGE for the Douglas Point generating station's first fuel charge.

Under contract to AECL, CGE is supplying three new replacement fuelling machine heads for NPD, Canada's first nuclear-electric power station. Shown here is one of the fuelling machine magazines. CGE was the prime contractor on the NPD project and the designer and supplier of the nuclear equipment for the station.

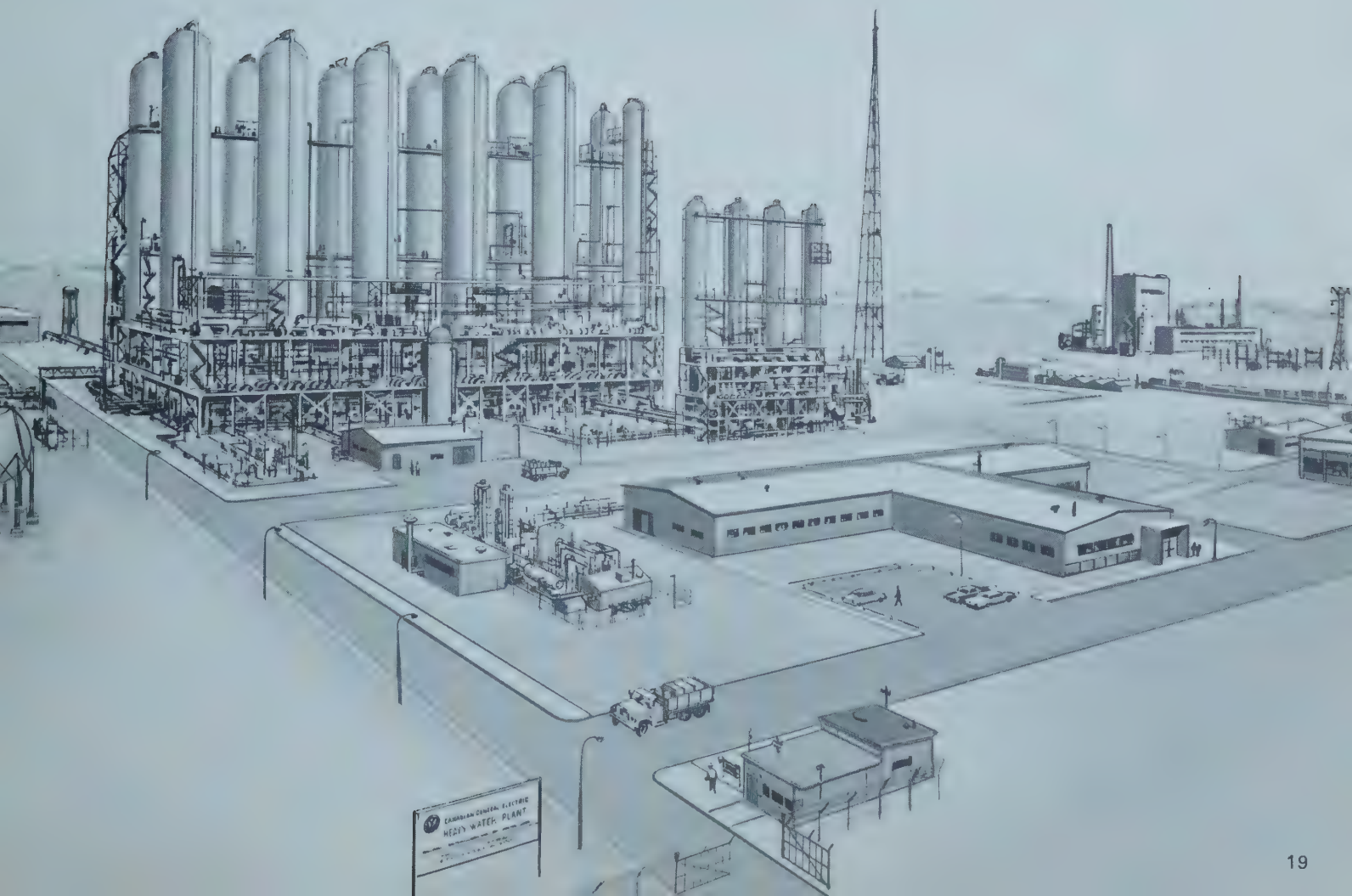


A final machining operation is being carried out in the Scarborough plant on one of two tube sheets for the calandria assembly which CGE is supplying for the nuclear station being built in Rajasthan, India. The station is similar in design to the Douglas Point generating station in Canada.



Heavy Water

Heavy water for Canada's nuclear reactor program will be produced by CGE at this $65 million plant, to be built near Port Hawkesbury on Cape Breton Island in Nova Scotia. Heavy water is used as a moderator in Canadian-type reactors to slow down neutrons and maintain the chain reaction. In entering heavy water production, at a price per pound below that available from other suppliers, the Company is making a further contribution to Canada's nuclear energy program, in which it has been deeply involved since 1955. From this plant, 5000 tons of heavy water will be supplied to Atomic Energy of Canada Limited over a 12½ year period beginning in mid-1969. Over 900 workers will be employed during peak plant construction. About 200 employees will be required to operate the completed facility.



Putting the Power to Work

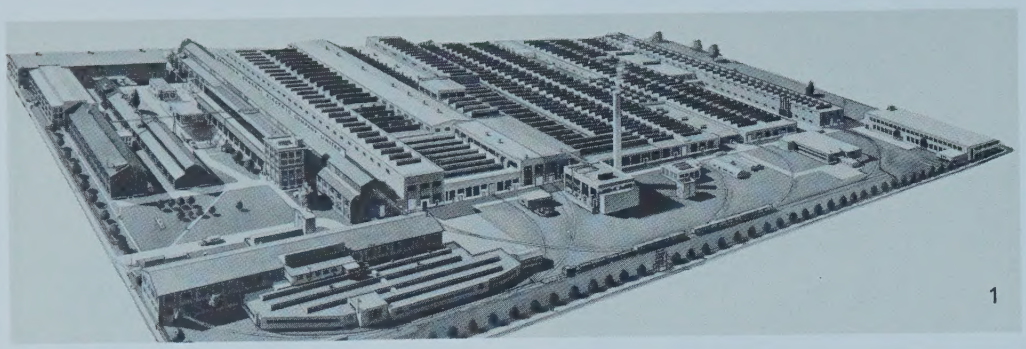
IN MUNICIPALITIES Company "know-how" and products are helping municipalities to effect improvements in street lighting, traffic control, sewage treatment, transportation facilities and electric distribution systems.

IN INDUSTRY This high speed newsprint machine, which produces 244-inch wide paper at up to 3,000 feet per minute, was built at Dominion Engineering Works. The machine typifies the use of electric power in Canadian industry.

IN COMMERCE CGE is playing a rapidly expanding role in the computerization of Canadian business. Other products used in commerce include motors, control, distribution systems, lighting equipment, microwave, broadcasting equipment, two-way mobile radio, infra-red heating and commercial cooking equipment.

IN THE HOME The Company is the nation's major producer of electric products for the home: kitchen and laundry equipment, portable appliances, electric heating, wiring materials, air conditioners, home entertainment products, and many types of light bulbs.

The Manufacturing Plants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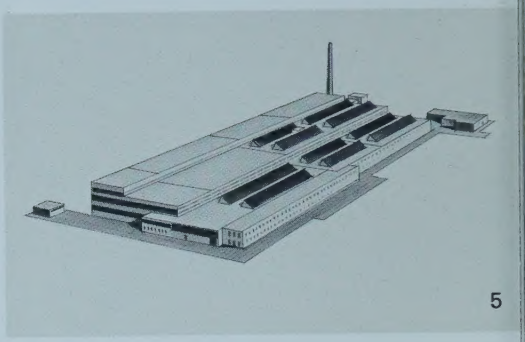
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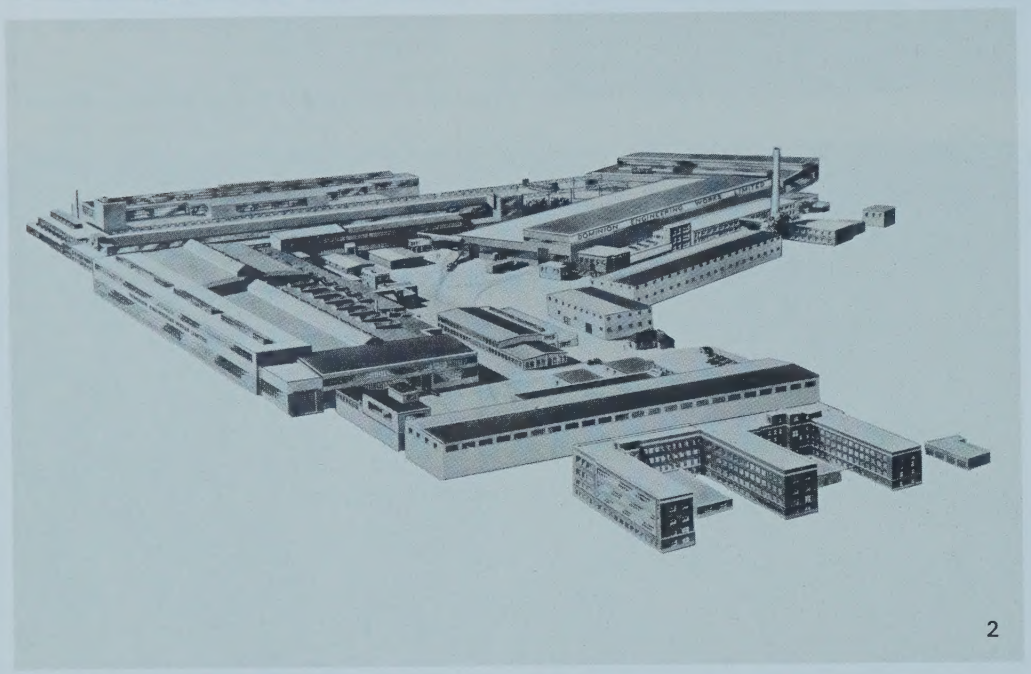
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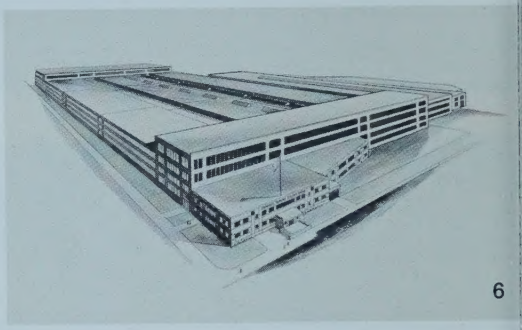
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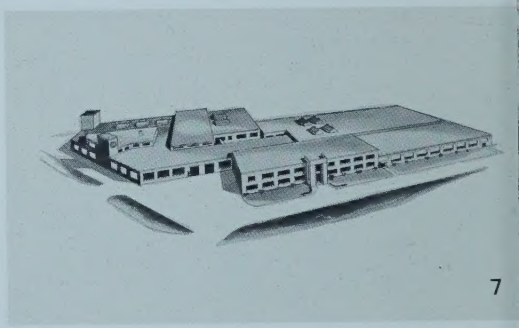
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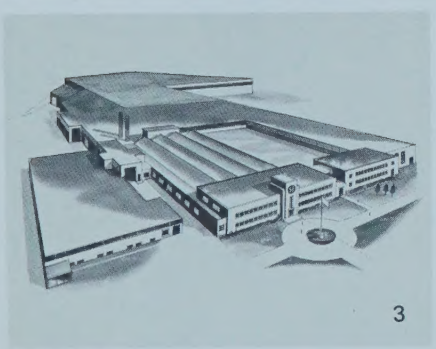
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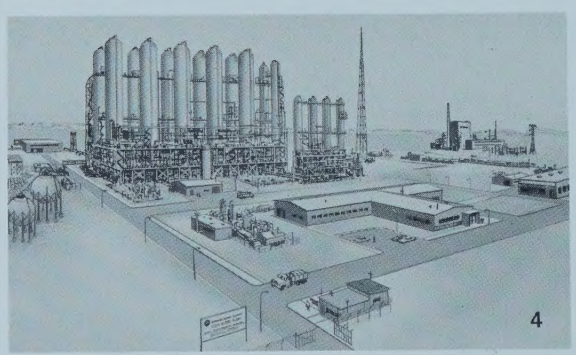
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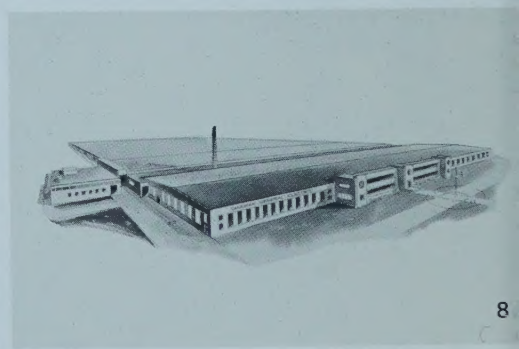

8

1. Peterborough — Generators, switchgear, motors, control, wire and cable, nuclear power plants, nuclear fuel.

2. Dominion Engineering Works, Limited, Lachine — Paper machines, turbines, rolling mill machinery, mining machinery, hydraulic presses, gear products, roll products, power cranes and shovels, pumps, valves.

3. Barrie — Housewares.

4. Cape Breton Island (under construction) — Heavy water.

5. Scarborough — Nuclear reactors, steam turbines.

6. Montreal — Major appliances.

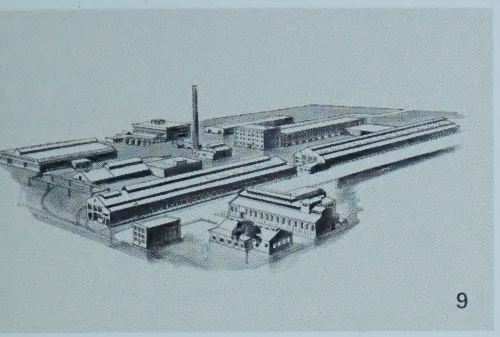
7. Quebec — Meters, instruments, appliance control, magnets.

8. Oakville — Lamps.

9. Davenport, Toronto — Distribution and specialty transformers, ballasts, industrial heating, lighting equipment, conduit, chemical materials.

10. Guelph — Power transformers.

f Canadian General Electric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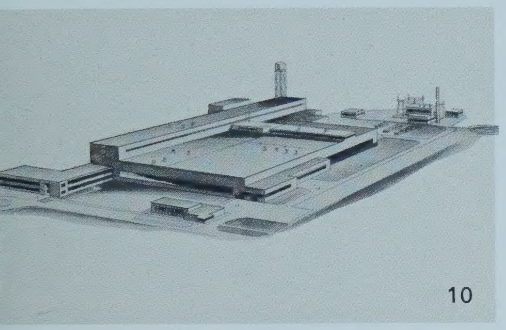
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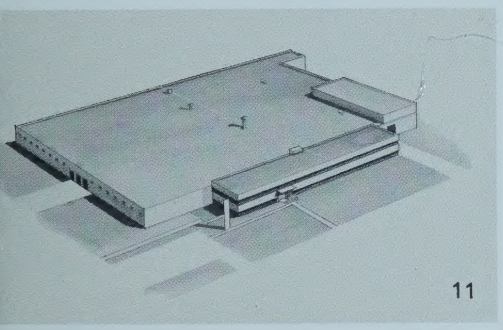
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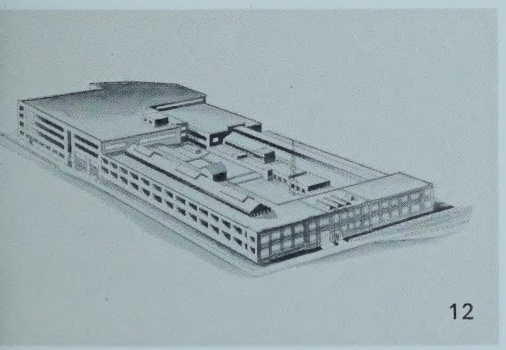
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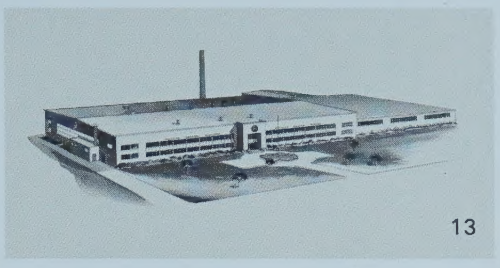
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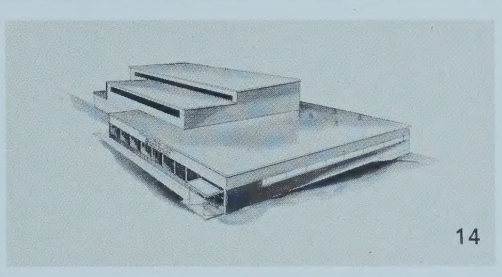
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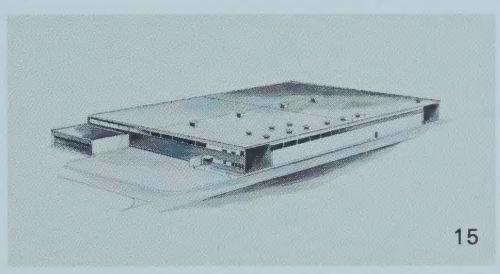
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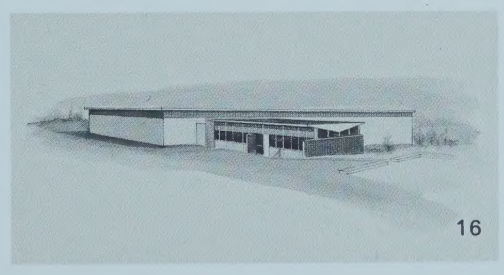
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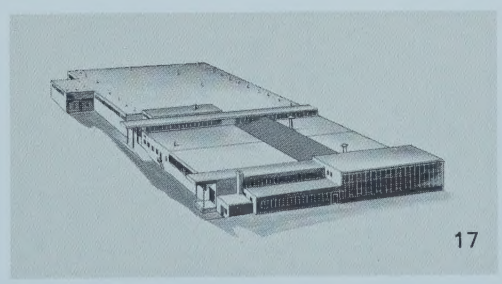
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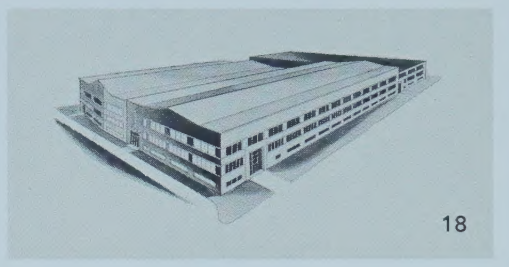
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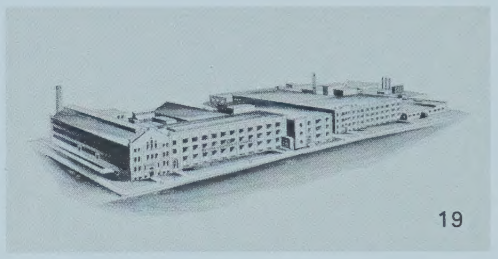
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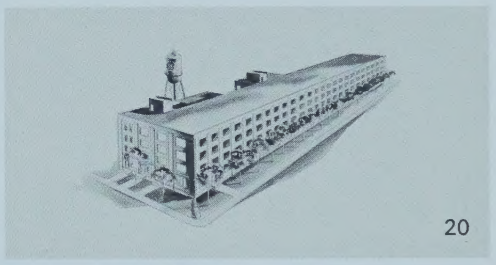
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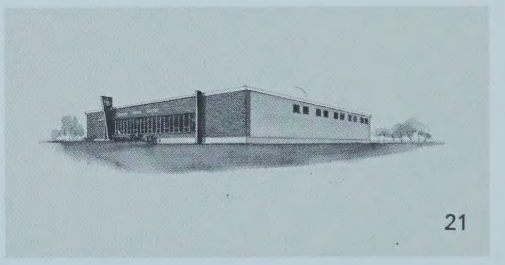
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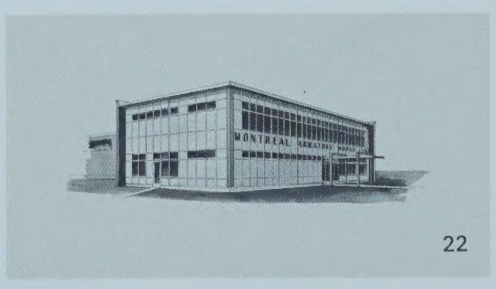

22

11. Amalgamated Electric Corporation, Limited, Markham — Distribution equipment for buildings.

12. Home Entertainment Centre, Toronto — radios, TV sets, stereo hi-fi, electronic equipment.

13. Cobourg — Plastics.

14. Carboloy, Toronto — Cemented carbide tools.

15. Rexdale — TV picture tubes.

16. St. Andrews East — Reinforced plastics.

17. Trenton — Motors for home laundry equipment.

18. Montreal — Lamps.

19. Dufferin, Toronto — Lamps, electronic tubes, semiconductors.

20. Ward St., Toronto — Wiring and heating devices.

21. Atlantic — Distribution transformers.

22. Montreal Armature Works Limited — Apparatus service shop, distribution transformers.

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